

**DEPARTMENT OF STATE REVENUE**

**SECOND SUPPLEMENTAL LETTER OF FINDINGS: 96-0317**

**Sales and Use Tax**

**For The Period: 1992 Through 1994**

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**ISSUES**

**I. Sales and Use Tax: Testing of Plasma**

**Authority:** IC 6-2.5; 45 IAC 2.2-5-8(i)

Taxpayer protests the imposition of sales/use tax on testing equipment.

**STATEMENT OF FACTS**

The taxpayer operates a plasmapheresis center where whole blood is withdrawn from human donors and separated by a centrifuge into source plasma and red blood cells. The taxpayer performs testing on the plasma.

**I. Sales and Use Tax: Testing of Plasma**

**DISCUSSION**

The taxpayer's testing is as follows: after the blood and plasma are separated, the plasma is then fed into plastic bags. A length of the plastic tubing that runs from the machinery to the bags is used as a sample from each bag of liquid plasma. The tubing is divided into several shorter segments—via a heated crimper.

The auditor argues that the testing was “destructive testing” and therefore not exempt, because exemptions are for production—not *destruction*. The taxpayer argues that: (1) the testing is in-process testing (since whether or not the “batch” of plasma goes out is contingent on the testing results), and (2) that the testing is integral and essential to the production process.

The destruction of the product during testing is not determinative. What must be examined is the functional interrelationship between the testing equipment and the production equipment, especially when the product cannot be used if it fails the test. In this particular situation, the testing equipment is an integral part of the integrated production process and is therefore exempt.

**FINDING**

The taxpayer's protest is sustained.